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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 002094

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SUBJECT: PA ASKS FOR HELP TO COUNTER SETTLER BUSINESSES

Classified By: Consul General Jake Walles for reasons 1.4 (b) and (d).

11. (C) Summary: Palestinian officials are highlighting economic activity in Israeli settlements and encouraging third countries to discourage trade and other economic links to settlement enterprises. The UK is focused on the issue, which dominated Foreign Secretary Milliband's recent visit to Israel and the West Bank. NGO advocacy has had some recent success in getting European businesses to move out of the settlements. End Summary.

PA Focusing Attention on the Business of Settlements

12. (U) Palestinian officials are trying to persuade third countries to adopt measures that discourage economic activity in Israeli settlements. PLO Chief Negotiator Sa'eb Erekat wrote an open letter to the diplomatic corps calling for curbs on "foreign involvement in Israeli settlement activity." The PLO's Negotiations Support Unit (NSU) also circulated background papers detailing economic activity in the settlements and PA legal objections to Israeli property transactions in the West Bank. The NSU described the "factories, farms, service providers and other commercial enterprises" in the settlements as "an integral part of the Israeli settlement enterprise... sustaining the expansion of the settlements and settlement-related infrastructure and the growth of the settler population." Prime Minister Salam Fayyad told reporters that the PA is working with European countries to "deprive (settlements) of the privileges they offer and ask them not to import from the settlements."

UK and European NGOs Energized

13. (C/NF) The issue of settlement exports to Europe dominated UK Foreign Secretary Milliband's visit to Israel and the West Bank. UK diplomats provided ConGenOffs with the UK non-paper circulated to EU countries suggesting a review of "how UK and Community policies can avoid inadvertently supporting or encouraging settlement activity." They report that London is aggressively trying to find ways to ensure that imports from settlements do not get the preferential duty treatment authorized for "Green Line" Israel and Palestinian producers, and that UK Customs is focused primarily on fruit and vegetable production by settlers in the Jordan Valley. UK inspectors are now opening shipments from Israel to look at origin and labeling. The UK has also reportedly notified the GOI of specific "companies of concern" that have been illegally exporting settlement products as "made in Israel."

14. (SBU) PM Fayyad wrote to UK PM Brown earlier this month

thanking him for UK efforts and suggesting further steps the UK could take to help curb settlement activity. The letter calls for divestment by state-owned enterprises and the withholding of loans and credit guarantees that support settlement businesses. Fayyad also encouraged the UK to go beyond ending preferential tariff treatment for settlement-produced products and to prohibit their importation altogether.

15. (SBU) As a result of increased focus on settlement issues by NGOs, several European companies in recent months transferred business activities out of settlements. According to press reports, Dutch firm "Tempo Beer Industry" transferred a subsidiary firm and one of Israel's largest wineries -- Barkan Wineries -- from the Barkan industrial zone near Ariel following a corporate review process that assessed the company's activities in occupied territory as "complicit in human rights abuses." Press reports also note that the world's largest lock maker, Mul-T-Lock, removed a production plant from Barkan after Swedish human rights groups demanded its closure. Barkan, southwest of Nablus, is the largest settlement industrial zone. Settler contacts confirmed to Poloffs the departure of both the winery and lock maker.

Settlement Businesses Continue to Expand

16. (C) NGO contacts and Israeli Internal Revenue Service (IIRS) reports indicate that settlement corporations have grown at a higher rate than those within "Green Line" Israel. NGO contacts say that preferential tax treatment and

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effective immunity from labor law contributes to the growing settler economy. According to these contacts, settlement businesses almost always qualify as "Areas of National Priority" and therefore are taxed at a much lower rate. NGO contacts also claim that the GOI lacks the resources to enforce labor laws and perform routine inspections in settlement industrial zones. As a result, they say, settler business owners cut costs by paying Palestinian workers well-below minimum wage and providing substandard work conditions.

17. (U) The documents referred to above -- including the UK non-paper and the NSU letter and backgrounders -- can be found on ConGen Jerusalem's unclassified intelink site at: http://www.intelink.gov/communities/state/pal_econ.
WALLES